

Markets This Week Ahead of the Open

Key Takeaways

- Shifting expectations around the Iran war allow equities to advance
 - Yields closed the week lower following growing concerns about a slowdown in economic growth
 - The labor market displays signs of resilience amid an uncertain macro backdrop
-

This past week equities and broad market indexes advanced higher for the first time since the start of the Iran war following a shift in sentiment surrounding a potential resolution to this conflict. This was also preceded by a shift in underlying expectations surrounding the impact of this war on economic prospects.

What began the advance in equities this week came from a change in sentiment surrounding the implications of the Iran war on economic growth. Prior to this week, concerns had primarily been focused on inflation, and how rising oil prices would further this trend. This notion was what allowed yields to advance, and even allowed expectations of rate hikes by the Federal Reserve. As yields rose, and the market's risk off-episode continued, equities continued to contract facing headwinds from heightened inflationary concerns alongside a shift in monetary policy expectations. Typically, in a risk-off episode yields tend to fall given renewed demand for haven assets, but up until this week this wasn't the case. Monday, however, was where this changed. Overnight expectations surrounding the Iranian war shifted from its impact on inflation, to its impact on economic growth. To be precise, there was a broad belief that this war would lead to a slowdown in economic growth due to rising oil prices. It was this shift that led to renewed demand for government bonds not just within the U.S, but worldwide, which sent yields lower. As yields fell, equities were able to advance. During this conflict, many have become accustomed to daily advances being temporary in nature, often reversing the following day or even the day of. This week saw a turnaround in this trend, as the changing expectations for economic growth were then followed by increased expectations surrounding a potential resolution to this conflict.

These factors helped broad-market indexes extend their gains, the first positive week since the conflict began. Despite an early close ahead of the holiday, investor sentiment remained optimistic. Following the close, it's important to note that on Friday, the BLS had released its job report, one that caught many by surprise.

For March, the U.S. economy had added 178,000 jobs, close to triple that of market expectations. Job growth was primarily concentrated in the healthcare and social services sector, with additional strength coming from construction, which also contributed meaningfully to overall gains. The unemployment rate ticked down to 4.3%. Expectations were centered around it staying the same. While the headline figures were strong, the report also included downward revisions to the prior month's data, signaling some underlying weakness. For February the U.S. economy was initially reported to have lost 92,000 jobs. This month's report revised that

figure further downward to a loss of 133,000 jobs, marking a significantly sharper decline than previously reported.

Overall, this week's developments suggest that markets are beginning to reprice the Iran conflict less as an inflation shock and more as a potential drag on growth, a shift that has already translated into lower yields and a more supportive backdrop for equities. At the same time, while the labor market remains resilient on the surface, the negative revisions introduce some caution around underlying momentum. Moving forward, the sustainability of this rally will likely hinge on whether easing yields persist and if expectations for de-escalation continue to build, alongside incoming data confirming that growth is slowing in a controlled manner rather than deteriorating more sharply.